

San Bernardino Associated Governments

Basic Financial Statements
Fiscal Year Ended June 30, 2005

McGladrey & Pullen
Certified Public Accountants

McGladrey & Pullen, LLP a member firm of RSM International,
an affiliation of separate and independent legal entities.

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Section I

Introductory Section

February 28, 2006

To the Citizens of San Bernardino County, California:

The Annual Financial Report of San Bernardino Associated Governments (SANBAG), California, and our related agencies for the fiscal year ended June 30, 2005, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with SANBAG. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of SANBAG. To provide a reasonable basis for making these representations, SANBAG has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of SANBAG's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, SANBAG's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

SANBAG's financial statements have been audited by McGladrey & Pullen, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of SANBAG for the fiscal year ended June 30, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that SANBAG's financial statements for the fiscal year ended June 30, 2005 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of SANBAG was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in SANBAG's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. SANBAG's MD&A can be found immediately following the report of the independent auditor.

Profile of SANBAG

SANBAG is a council of governments and transportation planning agency, governed by the mayors of the 24 cities and the 5 members of the Board of Supervisors within San Bernardino County. SANBAG serves the 1.7 million residents of San Bernardino County and enjoys the membership of the County of San Bernardino and all cities within the county: Adelanto, Apple Valley, Barstow, Big Bear Lake, Chino, Chino Hills, Colton, Fontana, Grand Terrace, Hesperia, Highland, Loma Linda, Montclair, Needles, Ontario, Rancho Cucamonga, Redlands, Rialto, San Bernardino, Twentynine Palms, Upland, Victorville, Yucaipa and Yucca Valley.

Since its creation as a Council of Governments in 1973, SANBAG has been designated to serve as several additional authorities, created primarily by statute, which are all organized under the umbrella of the Council of Governments. These authorities are listed below:

As the County Transportation Commission, SANBAG is responsible for short- and long-range transportation planning within San Bernardino County, including coordination and approval of all public mass transit service, approval of all capital development projects for mass transit and highway projects, and determination of staging and scheduling of construction relative to all transportation improvement projects in the Transportation Improvement Program.

As the County Transportation Authority, SANBAG is responsible for administration of the voter-approved half-cent transportation transactions and use tax which is estimated to generate more than \$1.6 billion through 2010 for funding of major freeway construction, commuter rail service, local street and road improvements, special transit service for the elderly and disabled population, and traffic management and environmental enhancement efforts.

As the Service Authority for Freeway Emergencies, SANBAG operates a system of more than 1,615 call boxes on state freeways and highways within San Bernardino County.

As the Congestion Management Agency, SANBAG manages the performance level of the regional transportation system in a manner which ensures consideration of the impacts from new development and promotes air quality through implementation of strategies in the adopted air quality plans.

As a Subregional Planning Agency, SANBAG represents the San Bernardino County subregion and assists the Southern California Association of Governments in carrying out its functions as the metropolitan planning organization. SANBAG performs studies and develops consensus relative to input into regional growth forecasts, regional transportation plans and mobile source components of the air quality plans.

The annual budget serves as the foundation for SANBAG's financial planning and control. SANBAG begins by reviewing short-term direction, assessing needs, evaluating resources and then developing the budget. Budget involvement includes all SANBAG staff members. Finance staff prepares revenue projections and the administrative budget, and completes setup of SANBAG's budget system for the new fiscal year by February 1. Task managers develop a detailed line-item budget and submit it to the Chief Financial Officer by the last day of February.

The Chief Financial Officer then compiles the draft budget documents and presents the information to SANBAG's management staff for review. The Executive Director reviews the entire budget for overall consistency with both the short- and long-term strategic direction of the Board of Directors, the appropriateness of funding sources for the identified tasks and any recommended staffing changes. Support staff assists in the review and preparation of documents and submits them to the Director of Management Services, the Chief Financial Officer and the Clerk of the Board/Administrative Assistant for finalization.

Factors Affecting Financial Condition

San Bernardino County, which together with Riverside County forms the Inland Empire, has one of the fastest growing populations and economies in the United States. The most recent data show that the county is seeing rapid acceleration in new home construction, population, employment and retail sales. Importantly, this growth is experiencing a qualitative shift as well-educated younger workers migrate inland from Southern California's coastal counties. The Inland Empire is now experiencing growth in its office market sector, which should be an accelerating force in its economy.

The Inland Empire is currently experiencing record sales in new homes despite record prices. Very high coastal county prices and lack of lots have forced demand inland, causing prices to soar. However, existing home prices flattened from second to third quarter 2005 in Riverside and San Bernardino Counties, indicating that the run-up may be ending.

Rapid economic growth coupled with affordability of housing in the Inland Empire will result in positive growth for the region. This growth is expected to continue in the region well into the future.

Long-term Planning

Voters approved the extension/renewal of the local sales and transaction use tax in November 2004. SANBAG is currently working on a strategic plan for the implementation of this 30-year extension, designed to improve transportation and goods movement. During the next two years, SANBAG will be exploring economically viable ways to advance these transportation projects so they may be enjoyed by the citizens of San Bernardino County as soon as possible.

Cash Management Policies and Practices

SANBAG has an investment policy, approved by the SANBAG Board of Directors, to provide guidance for all SANBAG funds. There are three basic types of investments: bond proceeds, pool funds and direct investments. The idle cash for fiscal year 2004/2005 was invested in pools (such as the County Pool or the State Pool) and directly in U.S. T-Bills, Government Securities, Commercial Paper and Money Market Mutual Funds. The average rate for the year was 2.3% and the average maturity was 298 days.

Risk Management

As part of an ongoing effort, SANBAG continues to develop a risk management program for workers' compensation. Additionally, various control techniques, including employee accident prevention training, have been implemented during the year to minimize accident-related losses. Third-party coverage is maintained for all workers' compensation claims. An insurance broker, who was selected through a competitive process, assists SANBAG with its selection of policies.

Retirement

SANBAG participates in the San Bernardino County Employee's Retirement System. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that SANBAG must make to the plan to ensure that the plan will be able to fully meet its obligations to retired employees.

Acknowledgements

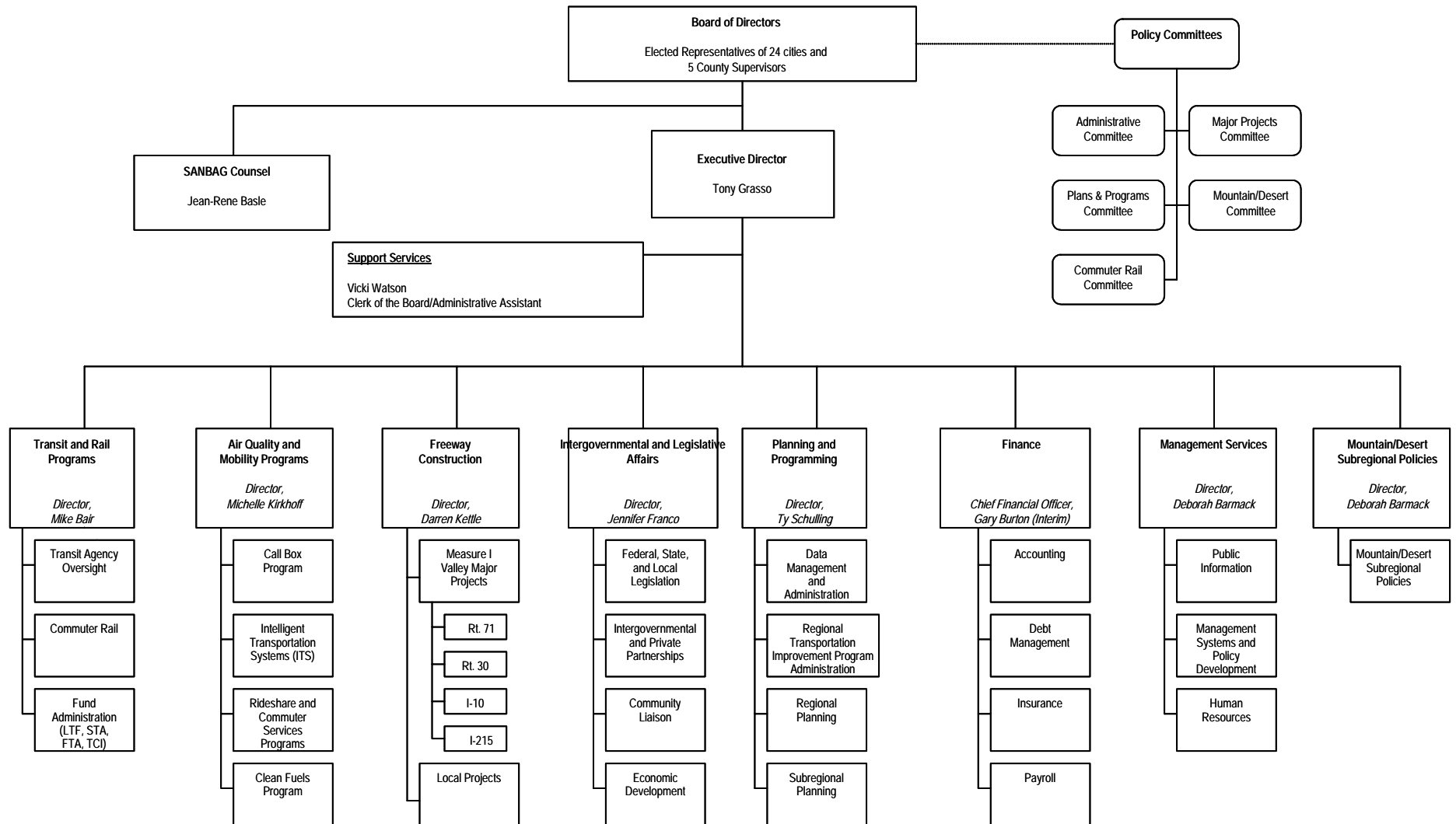
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. Credit also must be given to the SANBAG Board of Directors for its unfailing support for maintaining the highest standards of professionalism in the management of SANBAG's finances.

Respectfully submitted,

A handwritten signature in black ink, reading "Gary Burton". The signature is fluid and cursive, with the first name "Gary" and last name "Burton" clearly distinguishable.

Gary Burton
Interim Chief Financial Officer

SANBAG Organization Chart



**San Bernardino Associated Governments
Board of Directors**

As of June 30, 2005

President

Paul Biane, Supervisor
County of San Bernardino

Jim Nehmens, Mayor
City of Adelanto

Rick Roelle, Council Member
Town of Apple Valley

Lawrence Dale, Mayor
City of Barstow

Darrell Mulvihill, Mayor
City of Big Bear Lake

Dennis Yates, Mayor
City of Chino

Gwenn Norton-Perry, Council Member
City of Chino Hills

Mark Nuaimi, Mayor
City of Fontana

Bea Cortes, Mayor Pro Tem
City of Grand Terrace

James Lindley, Mayor
City of Hesperia

Larry McCallon, Mayor Pro Tem
City of Highland

Robert Christman, Council Member
City of Loma Linda

Paul Eaton, Mayor
City of Montclair

Rebecca Valentine, Council Member
City of Needles

Alan Wapner, Mayor Pro Tem
City of Ontario

Diane Williams, Mayor Pro Tem
City of Rancho Cucamonga

Vice-President

Kelly Chastain, Council Member
City of Colton

Pat Gilbreath, Council Member
City of Redlands

Grace Vargas, Mayor
City of Rialto

Judith Valles, Mayor
City of San Bernardino

Kevin Cole, Council Member
City of Twentynine Palms

John Pomierski, Mayor
City of Upland

Mike Rothschild, Mayor
City of Victorville

Richard Riddell, Mayor
City of Yucaipa

Paul Cook, Council Member
Town of Yucca Valley

Dennis Hansberger, Supervisor
County of San Bernardino

Bill Postmus, Supervisor
County of San Bernardino

Josie Gonzales, Supervisor
County of San Bernardino

Gary Ovitt, Supervisor
County of San Bernardino

Anne Mayer, Caltrans
Ex-Officio Member

Norman R. King
Executive Director

Section II

Financial Section

Independent Auditor's Report

Board of Directors
San Bernardino Associated Governments
San Bernardino, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the San Bernardino Associated Governments (SANBAG) as of and for the year ended June 30, 2005, which collectively comprise the SANBAG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SANBAG's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of SANBAG as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2006 on our consideration of SANBAG's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SANBAG's basic financial statements. The accompanying introductory section, the combining nonmajor fund financial statements and the statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Riverside, California
February 6, 2006

Management's Discussion and Analysis

As management of SANBAG, we offer readers of SANBAG's financial statements this narrative overview and analysis of the financial activities of SANBAG for the fiscal year 2004/2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- SANBAG's statement of net assets reflects total assets of \$339,600,120 and total liabilities of \$203,887,228.
- SANBAG's total net assets increased by \$57,618,838 as indicated on the statement of activities.
- SANBAG did not issue any additional sales tax revenue bonds during fiscal year 2004/2005 and did not incur any additional debt.
- SANBAG's revenue increased for fiscal year 2004/2005 by more than 18%. This growth is attributed to increased sales tax, local transportation fund, investment income and federal revenues.
- SANBAG previously converted to the GASB 34 format and now includes all assets on its statements.
- Voters approved the extension of Measure I sales tax through the year 2040 beginning in 2010.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to SANBAG's basic financial statements. SANBAG's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements—The government-wide financial statements are designed to provide readers with a broad overview of SANBAG's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of SANBAG's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of SANBAG is improving or deteriorating.

The statement of activities presents information showing how SANBAG's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

The statement of activities distinguish functions of SANBAG that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities) or operating grants and contributions. The governmental activities of SANBAG are composed in large part by disbursements to cities, subareas, transit operators and claimants and highways. The other functional areas i.e., professional services, contributions to other governments and long-term debt, support the above-mentioned two primary functional areas. The management and technical function supports the Service Authority for Freeway Emergency program.

The government-wide financial statements include only the financial information for SANBAG and its component unit, SAFE itself. The government-wide financial statements can be found on pages 9 and 10.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. SANBAG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

SANBAG maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for its major governmental funds which consist of: the General Fund, Local Transportation Fund, Measure I Special Revenue Fund, Other Special Revenue Fund and Debt Service. Individual fund data for each of the nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

SANBAG adopts an annual budget on a project basis and establishes an appropriations limit for all of its governmental funds.

The basic governmental fund financial statements can be found on pages 11–16.

Proprietary funds. SANBAG only maintains one type of proprietary fund, an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among SANBAG's various functions. SANBAG uses its internal service funds to account for the SANBAG building and for tracking any associated maintenance costs. Because this activity benefits the governmental function, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the SANBAG building and associated maintenance.

The basic proprietary fund financial statements can be found on pages 17–19.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20–31 of this report.

Government-wide Financial Analysis

As noted earlier, net assets and other elements of the statement of net assets may serve over time as a useful indicator of SANBAG's financial position. At June 30, 2005, SANBAG's assets exceeded liabilities by \$135,712,892.

The largest portion of SANBAG's net assets reflects its cash and investments. The restricted investments are split between future obligations for debt service requirements and for future capital project commitments. While the balance of the cash is invested primarily for capital project activity, smaller amounts are set aside for management and technical services and for professional services related to agency-wide activities.

Unrestricted net assets represent the portion of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. Unrestricted net assets from governmental activities are a deficit of (\$136,293,171). This amount results in part from the impact of SANBAG's debt on the statement of net assets. While the debt has been incurred to build highways which are capital assets, upon completion the highway projects are transferred to the State of California, Department of Transportation. Accordingly, these projects are not assets that offset debt in the statement of net assets.

Net Assets	FY 04/05	FY 03/04
Current and other assets	\$ 275,043,976	\$ 240,509,283
Capital assets, net of accumulated depreciation	64,556,144	63,962,736
Total assets	339,600,120	304,472,019
Noncurrent liabilities	172,499,854	202,903,151
Other liabilities	31,387,374	23,474,814
Total liabilities	203,887,228	226,377,965
Net assets:		
Invested in capital assets	64,556,144	63,962,736
Restricted	207,449,919	174,805,298
Unrestricted	(136,293,171)	(160,673,980)
Total net assets	\$ 135,712,892	\$ 78,094,054

SANBAG's total net assets increased from \$78,094,054 to \$135,712,892. The change in net assets of SANBAG's activities increased by approximately 73%, or \$57,618,838. This significant increase in net assets can be attributed to an increase in federal funds of 289% and an overall increase in revenues.

Governmental Activities

Changes in Net Assets	FY 04/05	FY 03/04
Program revenues:		
Charges for services	\$ 1,575,365	\$ 6,554,485
Operating grants and contributions	116,337,903	93,133,962
General revenues:		
Measure I sales tax	131,623,042	114,681,121
Gain on sale of capital assets	523,593	-
Interest income	4,924,723	1,280,765
Total revenues	254,984,626	215,650,333
Expense:		
General government	8,848,350	5,528,026
Disbursements to others	104,425,504	92,551,017
Contributions	11,066,460	12,923,115
Professional services	19,167,437	23,708,438
Management technical	210,115	791,105
Highways	44,531,970	26,356,523
Interest on long-term debt	9,115,952	10,378,016
Total expenses	197,365,788	172,236,240
Increases in net assets	57,618,838	43,414,093
Net assets, beginning	78,094,054	34,679,961
Net assets, ending	<u>\$ 135,712,892</u>	<u>\$ 78,094,054</u>

Retail taxable sales grew in San Bernardino County at the rate of 14.8% in calendar year 2004. This resulted in an increase in Measure I sales tax shown above. This in turn resulted in an equivalent increase in the disbursement to others, which represents that portion of the Measure I program which passed through to the cities.

The increase in Interest income can be attributed solely to the increased earning rate. SANBAG earned approximately 2% more on its portfolio in fiscal year 2004/05 than in fiscal year 2003/04.

Highway expenditures increased significantly in fiscal year 2004/05 as a result of the construction on the 210 freeway. These expenditures are related to the truck climbing lane, bridge construction and the sound walls for the final segments.

Financial Analysis of SANBAG's Funds

Changes in Year-end Fund Balances	FY 04/05	FY 03/04	% Change
General Fund	\$ 2,851,994	\$ 2,596,298	9.85%
Special Revenue-Local Transportation Fund	59,662,401	57,118,588	4.45%
Special Revenue-Measure I Fund	122,059,544	93,808,472	30.12%
Special Revenue-Other	2,779,587	1,340,900	107.29%
Special Revenue-State Transit Assistance Fund	18,149,777	17,624,814	2.98%
Special Revenue-Service Authority for Freeway Emergencies Fund	952,341	1,897,338	-49.81%
Debt Service Fund	28,709,615	37,362,901	-23.16%

The increase in the Measure I fund balance is the result of revenues greater than anticipated along with the ability to postpone expenditures by using other federal and state funds. The Measure I fund balance will be reduced in future periods as the burden of project expenditures fall on Measure I.

General Budgetary Highlights

Differences between the original budget and the final amended budget can be briefly summarized as follows:

- SANBAG uses encumbrance accounting. At such time when the encumbrances for the fiscal year are finalized, they are approved by SANBAG Board of Directors and included in the budget requirements for the related fiscal year. This is by far and large the greatest increase, annually, to the SANBAG budget.
- On occasion, SANBAG will be aware of potential funding sources, but not be in receipt of any documentation that would confirm revenue allocation. Typically, SANBAG does not budget for these revenues until such time as a contract or supplement is executed. Upon Board approval, these funds would be added to the SANBAG budget via a budget amendment.
- During the course of the year, additional projects are approved and these actions may or may not have been consistent with the adopted fiscal year budget. An amendment is approved at this time, if necessary.

Capital Assets

SANBAG's investment in capital assets for its government-type activities as of June 30, 2005 amounts to \$64,556,144 (net of accumulated depreciation). There were no significant capital outlays for fiscal year 2004/2005.

Debt Administration

Long-term debt—At the end of 2005, SANBAG had total bonded debt outstanding of \$169,905,000. These sales tax revenues bonds are backed by full faith and credit of SANBAG's Measure I Sales and Transaction Use Tax.

- During fiscal year 2004/2005, SANBAG did not issue any additional debt.
- SANBAG did not refinance any of the sales tax revenues bonds.
- As of this writing, it is anticipated that SANBAG will not need to issue additional debt for the rest of the current Measure I Sales Tax Transaction and Use Tax.

- SANBAG continues to be well below the \$500 million indebtedness limit as set by Ordinance 89-1, Measure I Sales Tax Transaction and Use Tax.

Economic Factors and Next Year's Budgets and Rates

SANBAG continues to utilize expert professionals to evaluate revenue forecasts and provide the assumptions for future budgets.

- In 2004 San Bernardino County's retail sales increased 16% according to the California Board of Equalization.
- Retail sales growth is being driven by the population increase. From July 2004–05, the California Department of Finance reported that the county had the third highest absolute growth in California, up 51,267 people, or 2.66%, for a total population of 1,977,822.
- Per capita retail sales went from \$12,083 in calendar year 2003 to \$13,634 in calendar year 2004, up 12.8%. Income data lags three years behind; however, this is a clear sign that income growth exists providing the residents the ability to buy more goods.
- The U.S. Bureau of Labor Statistics indicated that San Bernardino had the ninth largest increase in local jobs, up 4.6%, in second quarter 2005 among all U.S. counties.

It is expected that San Bernardino County will continue to grow as a result of available land, available jobs and housing prices below the Southern California median.

Requests for Information

This financial report is designed to provide a general overview of SANBAG's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, San Bernardino Associated Governments, 1170 W. 3rd St., Second Floor, 92410-1715.

San Bernardino Associated Governments

Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets	
Cash and Investments	\$ 196,639,080
Receivables	
Interest	945,615
Intergovernmental	62,478,927
Intergovernmental Note	719,041
Other	616
Prepaid Items	238,931
Restricted Investments	13,211,176
Deferred Charges	810,590
Capital Assets, net of accumulated depreciation	64,556,144
Total assets	339,600,120
Liabilities	
Accounts Payable and Other Accrued Expenses	16,845,461
Due to Other Governments	10,444,033
Accrued Interest Payable	3,496,333
Deferred Revenue	601,547
Noncurrent Liabilities	
Due within one year	30,956,711
Due in more than one year	141,543,143
Total liabilities	203,887,228
Net Assets	
Invested in Capital Assets	64,556,144
Restricted for	
Disbursement to cities, subareas, transit operators and claimants	142,688,221
Highway construction	43,059,235
Other restricted	21,702,463
Unrestricted (Deficit)	(136,293,171)
Total net assets	\$ 135,712,892

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 8,848,350	\$ 1,575,365	\$ 940,204	\$ (6,332,781)
Disbursements to cities, subareas, transit operators and claimants	104,425,504	-	69,873,600	(34,551,904)
Contributions to other governmental agencies	11,066,460	-	-	(11,066,460)
Professional services	19,167,437	-	3,775,237	(15,392,200)
Management and technical services	210,115	-	-	(210,115)
Highways	44,531,970	-	41,748,862	(2,783,108)
Interest on long-term debt	9,115,952	-	-	(9,115,952)
Total governmental activities	\$ 197,365,788	\$ 1,575,365	\$ 116,337,903	(79,452,520)
General revenues:				
Measure I sales tax				131,623,042
Gain on sale of capital assets				523,593
Interest income				4,924,723
Total general revenues				137,071,358
Change in net assets				57,618,838
Net assets, beginning				78,094,054
Net assets, ending				\$ 135,712,892

See Notes to Financial Statements.

San Bernardino Associated Governments

Balance Sheet—Governmental Funds
June 30, 2005

	Major Funds			
	General	Local Transportation Fund Special Revenue	Measure I Special Revenue	Other Special Revenue
Assets				
Assets				
Cash and investments	\$ 2,946,230	\$ 48,811,515	\$ 92,329,075	\$ 18,666,313
Interest receivable	-	420,186	232,250	112,242
Due from other funds	-	-	19,666,919	-
Due from other governments	1,685	14,276,964	27,683,119	19,244,169
Prepaid expenses	238,930	-	-	-
Notes receivable, due from other governments	-	-	719,040	-
Other receivable	615	-	-	-
Investments, restricted	-	-	-	-
Total assets	\$ 3,187,460	\$ 63,508,665	\$ 140,630,403	\$ 38,022,724
Liabilities and Fund Balances				
Liabilities				
Accounts payable and other accrued expenses	\$ 98,492	\$ -	\$ 4,651,428	\$ 11,721,526
Due to other funds	-	-	-	19,356,410
Due to other governments	236,974	-	7,986,991	252,867
Deferred revenue	-	3,846,264	5,932,440	3,912,334
Total liabilities	335,466	3,846,264	18,570,859	35,243,137
Fund Balances				
Reserved for:				
Prepays	238,930	-	-	-
Capital projects	-	9,354,677	-	-
Unpaid allocations	-	-	-	-
Amounts encumbered for subsequent years' expenditures	-	-	-	-
Unreserved:				
Designated unallocated apportionments	-	29,232,775	-	-
Designated for subsequent years' expenditures	887,854	-	47,952,553	-
Undesignated	1,725,210	21,074,949	74,106,991	2,779,587
Total fund balances	2,851,994	59,662,401	122,059,544	2,779,587
Total liabilities and funds balance	\$ 3,187,460	\$ 63,508,665	\$ 140,630,403	\$ 38,022,724

See Notes to Financial Statements.

Major Funds

	Debt Service	Other Nonmajor Government Funds	Total
\$	15,498,439	\$ 18,238,451	\$ 196,490,023
	-	180,935	945,613
	-	-	19,666,919
	-	1,272,987	62,478,924
	-	-	238,930
	-	-	719,040
	-	-	615
	13,211,176	-	13,211,176
\$	28,709,615	\$ 19,692,373	\$ 293,751,240

\$	-	\$ 267,155	\$ 16,738,601
	-	310,509	19,666,919
	-	11,044	8,487,876
	-	1,547	13,692,585
	-	590,255	58,585,981

	-	-	238,930
	-	-	9,354,677
	-	10,907,630	10,907,630
	-	715,268	715,268
	-	-	29,232,775
28,709,615	-	-	77,550,022
-	7,479,220	-	107,165,957
28,709,615	19,102,118	-	235,165,259
\$ 28,709,615	\$ 19,692,373	\$	293,751,240

San Bernardino Associated Governments

Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2005

Total funds balances, governmental funds	\$ 235,165,259
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	64,556,144
Long-term liabilities are not due in the current period and, therefore, are not reported in the funds. The adjustment, which included the effect of insurance costs and premiums, combined the changes of the following components:	
Bonds payable	(169,905,000)
Bond issuance costs	810,590
Bond premium	(2,290,305)
Compensated absences	(304,548)
Accrued interest payable	(3,496,333)
	(175,185,596)
Net assets of the Internal Service Fund, excluding capital assets reported above	149,059
Other liabilities not recognized in funds	(106,860)
Assets, net of related liabilities, that do not meet the "availability" criteria for revenue recognition are deferred in the funds.	11,134,886
Total net assets of governmental activities (page 9)	\$ 135,712,892

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds
Year Ended June 30, 2005

	Major Funds			
	General	Local Transportation Fund Special Revenue	Measure I Special Revenue	Other Special Revenue
Revenue:				
Sales Tax	\$ -	\$ -	\$ 131,902,744	\$ -
Local Transportation Fund	-	69,042,522	-	-
State Transit Assistance Fund	-	-	-	-
Registration fees	-	-	-	-
Investment income	2,918	1,093,422	2,563,460	389,916
Refunds	-	634,139	-	-
Federal	-	-	-	11,677,403
State	-	-	-	25,016,959
Other local revenue	77,423	-	2,016,697	1,259,576
	<u>80,341</u>	<u>70,770,083</u>	<u>136,482,901</u>	<u>38,343,854</u>
Expenditures:				
Current:				
Disbursements to cities, subareas, transit operators and claimants	-	58,486,161	42,165,590	-
Contributions to other governmental agencies	(47,500)	-	3,967,010	7,146,950
Salaries, Wages and related items	1,806,041	-	535,391	344,073
Professional services	592,835	-	8,794,368	9,717,856
Transportation and travel	78,281	-	31,240	7,842
Communications	23,756	-	4,518	2,125
Office expense	1,056,148	-	511,681	258,500
Office furniture and equipment	319,106	-	1,407,454	-
Management and technical services	-	-	9,990	-
Highway construction	-	-	17,630,266	26,901,079
Right of Way	-	-	1,236,922	-
Other	203,798	-	-	-
Debt service:				
Bond principal	-	-	-	-
Bond interest	-	-	-	-
Cost of issuance	738,658	-	46,000	-
	<u>4,771,123</u>	<u>58,486,161</u>	<u>76,340,430</u>	<u>44,378,425</u>
Revenue over (under) expenditures	(4,690,782)	12,283,922	60,142,471	(6,034,571)
Other financing sources (uses):				
Gain on sale of property	-	-	-	597,512
Transfers in	4,946,478	-	9,031,216	7,727,409
Transfers out	-	(9,740,109)	(40,922,615)	(851,663)
Net change in fund balances	255,696	2,543,813	28,251,072	1,438,687
Fund balance, beginning	2,596,298	57,118,588	93,808,472	1,340,900
Fund balance, ending	<u>\$ 2,851,994</u>	<u>\$ 59,662,401</u>	<u>\$ 122,059,544</u>	<u>\$ 2,779,587</u>

See Notes to Financial Statements.

Major Funds		
Debt Service	Other Nonmajor Governmental Funds	Total
\$ -	\$ -	\$ 131,902,744
-	-	69,042,522
-	3,775,237	3,775,237
-	1,575,365	1,575,365
401,458	473,133	4,924,307
-	306,065	940,204
-	-	11,677,403
-	-	25,016,959
-	-	3,353,696
401,458	6,129,800	252,208,437
-	3,861,391	104,513,142
-	-	11,066,460
-	72,909	2,758,414
-	60,627	19,165,686
-	2,953	120,316
-	151,805	182,204
-	1,975,315	3,801,644
-	-	1,726,560
-	200,123	210,113
-	-	44,531,345
-	-	1,236,922
-	-	203,798
29,555,000	-	29,555,000
9,533,739	-	9,533,739
-	-	784,658
39,088,739	6,325,123	229,390,001
(38,687,281)	(195,323)	22,818,436
-	-	597,512
39,065,211	-	60,770,314
(9,031,216)	(224,711)	(60,770,314)
(8,653,286)	(420,034)	23,415,948
37,362,901	19,522,152	211,749,311
\$ 28,709,615	\$ 19,102,118	\$ 235,165,259

San Bernardino Associated Governments

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2005

Net change in fund balances, total governmental funds (page 15)	\$ 23,415,948
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Amounts reported for governmental activities in the statement of activities
(page 10) are different because:

Governmental funds report capital outlays as expenditures. However, In
the statement of activities, the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense. The
adjustment combines the changes of the following amounts:

Sale of assets	\$ (535,983)	
Capital Outlay	1,391,775	
Depreciation	<u>(262,383)</u>	
Net adjustment		593,409

Some expenditures reported in the statement of activities do not require
the use of current financial resources and, therefore, are not reported as
expenditures in governmental funds. The adjustment combines the
changes of the following amounts:

Amortization of deferred charges	(410,438)	
Amortization of bond premium, net	794,579	
Change in accrued interest on long-term debt	<u>818,304</u>	
		1,202,445

Adjustment is made for revenues in statement of activities that do not
meet the "availability" criteria for revenue recognition and, therefore, are
not reported as revenue in the funds.

2,339,820

Expenditures incurred for debt service principal payments	29,555,000
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Other expenditures not recognized in the fund statements	224,339
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The net revenue of certain activities of the internal service fund (adjusted
for depreciation) is reported with governmental activities.

287,878

Change in net asset of governmental activities (page 10)

\$ 57,618,838

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Net Assets—Proprietary Funds—Internal Service
June 30, 2005

	Governmental Activities— Internal Service Fund
Assets	
Assets	
Cash and investments	\$ 149,059
Capital assets:	
Buildings	4,610,617
Less accumulated depreciation	(153,412)
Total capital assets (net of accumulated depreciation)	4,457,205
Total assets	\$ 4,606,264
Liabilities and Net Assets	
Net Assets	
Invested in capital assets	\$ 4,457,205
Unrestricted	149,059
Total liabilities and net assets	\$ 4,606,264

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Revenue, Expenses and Changes in Net Assets—
 Proprietary Fund—Internal Service
 Year Ended June 30, 2005

	Governmental Activities— Internal Service Fund
Revenue, rent	\$ -
Operating expenses:	
Depreciation	169,622
Other	9,561
	<u>179,183</u>
Operating (loss)	<u>(179,183)</u>
Nonoperating interest income	414
Loss on sale of capital assets	<u>(157,205)</u>
Total nonoperating expenses	<u>(156,791)</u>
Loss before contributions and transfers	<u>(335,974)</u>
Capital contributions—Depot	<u>4,610,619</u>
Change in net assets	<u>4,274,645</u>
Net assets, beginning	<u>331,620</u>
Net assets, ending	<u><u>\$ 4,606,265</u></u>

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Cash Flows—Proprietary Fund—Internal Service
Year Ended June 30, 2005

	Governmental Activities— Internal Service Fund
Cash Flows from Operating Activities	
Cash paid to suppliers	\$ (9,561)
Net cash (used in) operating activities	<u>(9,561)</u>
Cash Flows from Noncapital Financing Activities	
Advances from other funds	<u>(489,349)</u>
Net cash (used) by noncapital financing activities	<u>(489,349)</u>
Cash Flows used in Capital Financing Activities	
Proceeds from sales of capital assets	<u>297,024</u>
Net cash provided by capital financing activities	<u>297,024</u>
Cash Flows from Investing Activities	
Interest income	<u>415</u>
Net cash provided by investing activities	<u>415</u>
Net (decrease) in cash and investments	<u>(201,471)</u>
Cash and Investments	
Beginning	<u>350,530</u>
Ending	<u><u>\$ 149,059</u></u>
Reconciliation of Operating (Loss) to Net Cash (Used in) Operating Activities	
Operating (loss)	\$ (179,183)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities, depreciation	<u>169,622</u>
Net cash (used in) operating activities	<u><u>\$ (9,561)</u></u>
Noncash Investing, Capital and Financing activities	
Contributions of capital assets from governmental activities	<u><u>\$ 4,580,525</u></u>

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Reporting entity: San Bernardino Associated Governments (SANBAG) was established in 1973 for the purpose of improving and coordinating governmental services on a countywide subregional basis. SANBAG acts as the San Bernardino County Transportation Commission (the Commission), established in 1977 under Division 12 (commencing with Section 130000) of the Public Utilities Code to provide transportation planning and programming at the local level. Funding for the Commission is provided from transportation funds and federal grant programs administered through the California Department of Transportation.

SANBAG also serves as the San Bernardino County Transportation Authority (the Authority), established under Division 19 (commencing with Section 18000) of the Public Utilities Code. The Authority is responsible for carrying out the provisions of the Ordinance, as described below, including the collection and allocation of Measure I sales tax revenue. The Ordinance was adopted by the voters of San Bernardino County (the County) and provides for the imposition of sales tax for transportation purposes, including, but not limited to, the administration of the Authority and the construction, maintenance, improvement and operation of local streets, roads and highways, state highways and freeways, and public transit systems. These purposes include expenditures for planning, environmental reviews, engineering and design costs, and related right-of-way acquisitions. They also include, but are not limited to, debt service on bonds and expenses in connection with the issuance of bonds.

The sales tax is imposed over a 20-year period from April 1, 1990 through March 31, 2010. Over that time, the tax was originally estimated to generate revenue in 1989 dollars of approximately \$1.72 billion. The original Expenditure Plan adopted by the Authority was calculated in 1989 dollars and contains a total of \$1.29 billion in expenditures. In June 1997, the Plan was revised to estimate total revenue and expenditures of approximately \$1.68 billion and \$1.65 billion, respectively, in actual dollars to date and projected with an average 5% growth rate through the end of the program. The Measure I Major Projects Cash Flow portion of the plan is reviewed semiannually and the revenue estimates are updated accordingly.

On November 2, 2004, the County's voters approved a 30-year renewal of Measure I through March 2040.

The accounting policies of SANBAG conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

Blended component unit: SANBAG also acts as the San Bernardino County Service Authority for Freeway Emergencies (SAFE), which was established by Section 2550 of the California Streets and Highways Code, authorizing the Board of Supervisors of the county and the city councils with a majority of the incorporated population to establish a service authority for freeway emergencies. The primary purpose of such an authority is to implement and maintain the operation of an emergency motorist aid system. In 1986 the Board of Supervisors of the County and the cities with a majority of the incorporated population established SAFE. Funding for SAFE is provided from an additional vehicle registration fee on vehicles registered in the County.

Government-wide statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function and allocated indirect expenses.

Note 1. Summary of Significant Accounting Policies, Continued

Fund financial statements: The fund financial statements provide information about SANBAG's governmental funds. The emphasis of fund statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Sales tax and intergovernmental revenues and interest associated with the current period are all considered to be susceptible to accrual and are recognized as revenues of the current period.

SANBAG reports the following major governmental funds:

General Fund is the general operating fund of SANBAG and accounts for all financial resources and transactions except those required to be accounted for in another fund.

Local Transportation Fund Special Revenue Fund accounts for the sales tax dollars collected within the County and administered on behalf of the County by SANBAG.

Measure I Special Revenue Fund accounts for the revenue from sales taxes received under Measure I.

Other Special Revenue Fund accounts for proceeds derived from federal, state and local sources which are legally restricted to finance specific transportation studies and projects.

Debt Service Fund accounts for the debt service on the sales tax revenue bonds.

Additionally, SANBAG reports the following fund type:

Internal Service Fund accounts for the operation and maintenance of SANBAG's headquarters building.

Significant accounting policies:

Cash and investments: Cash and cash equivalents include amounts in demand deposits, bank investment contracts, money market mutual funds and cash on deposit with the County of San Bernardino Treasury and the Local Agency Investment Fund (LAIF). Securities purchased with a maturity date greater than 90 days at the date of acquisition have been classified as investments.

Restricted assets represent unexpended proceeds, interest earnings thereon and reserve amounts of sales tax revenues bonds. Under related bond resolutions and indentures, any remaining bond proceeds are restricted for the use of future construction of improvements to the respective projects, for debt service or for reserve requirements. The majority of these proceeds are held by trustees and fiscal agents.

Note 1. Summary of Significant Accounting Policies, Continued

Cash in the County Treasury and LAIF is carried at fair value based on the value of each participating dollar as provided by the County Treasurer and LAIF. The fair value of SANBAG's position in the County pool and LAIF is the same as the value of the pool shares. Investments in U.S. Government and agency securities are carried at fair value based on quoted market prices. Money market mutual funds are carried at fair value based on the fund's share price.

Interfund transactions: Transactions among SANBAG funds that would be treated as revenues and expenditures or expenses if they involved organizations external to SANBAG are accounted for as revenues and expenditures or expense in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended are separately reported in the respective funds' operating statements.

Activity between funds that is representative of lending/borrowing arrangements at the end of the fiscal year is referred to as "due to/from other funds" or "advances to/from other funds."

Capital assets: Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by SANBAG as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Building, equipment and vehicles of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	39 years
Equipment and furniture	5-7 years
Vehicles	5 years

Compensated absences: Regular, full-time employees earn vacation at the rate of 10 to 20 days per year based upon length of service. Vested accumulated vacation leave that is expected to be payable from available resources is reported as a liability of the General Fund, if matured, for example, as a result of employee retirements or terminations. The unmatured portion is included with long-term debt.

Sick leave is recorded as an expenditure in the General Fund when taken by the employee. Employees who accrue in excess of 500 hours can convert them 2:1 into vacation leave. Any sick leave in excess of 500 hours is converted into vacation and accrued at fiscal year end as a liability reported in the government-wide financial statements. Converted sick leave, due and payable at year end, is reported in the General Fund.

Deferred revenues: Deferred revenues in the governmental funds represent amounts due to SANBAG which are measurable but not available.

Note 1. Summary of Significant Accounting Policies, Continued

Long-term debt: In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activities fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Risk management: SANBAG is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors or omissions. SANBAG protects itself against such losses by a balanced program of risk retention, risk transfers and the purchase of commercial insurance. Loss exposures retained by SANBAG are treated as normal expenditures and include any loss contingency not covered by SANBAG's purchased insurance policies. Construction projects and rail properties are protected through a combination of commercial insurance and insurance required of SANBAG consultants. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Fund equity: In the fund financials statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted for specific purposes. Designations of fund balance represent unspent portions of contracts that are expected to be appropriated and disbursed in the subsequent year.

Net assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by SANBAG or through external restrictions by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

SANBAG first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Disbursements to cities and subareas: Disbursements to cities and subareas represent the allocation of Measure I tax revenue within the San Bernardino Valley and Mountain-Desert areas. The annual distributions are made according to predetermined formulas, taking into account both population and sales tax generation factors.

Contribution to other governmental agencies: Contributions to other governmental agencies represent the disbursement of funds to other governmental agencies based on Board-approved projects that are within the guidelines of the Expenditure Plan.

San Bernardino Associated Governments

Notes to Financial Statements

Note 2. Cash and Investments

Cash and investments at June 30, 2005 consist of the following:

	Unrestricted			Restricted	Grand
	Cash	Investments	Total	Investments	Total
Cash in bank	\$ 7,550,541	\$ -	\$ 7,550,541	\$ -	\$ 7,550,541
Petty cash	1,500	-	1,500	-	1,500
Cash in County Treasury	-	75,979,602	75,979,602	-	75,979,602
State pool deposits	-	34,512,454	34,512,454	-	34,512,454
Investments with fiscal agents or custodians	-	78,594,983	78,594,983	13,211,176	91,806,159
	<u>\$ 7,552,041</u>	<u>\$ 189,087,039</u>	<u>\$ 196,639,080</u>	<u>\$ 13,211,176</u>	<u>\$ 209,850,256</u>

Investments authorized: SANBAG maintains cash and cash investments in accordance with its investment policy. The investment policy complies with, or is more restrictive than, applicable state statutes. SANBAG'S investment policy authorizes investments in U.S. Treasury notes and bonds, federal agency notes, commercial paper, corporate bonds, guaranteed investment contracts, bank certificates, money market mutual funds, repurchase agreements, the County of San Bernardino Treasury and LAIF. Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements.

Disclosures related to interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that SANBAG manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. SANBAG monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Investment Type	Amount Reported	Weighted Average Maturity (in Years)
U.S. Treasury Obligations	\$ 34,132,007	2.18
U.S. Government Sponsored		
Enterprise Securities:		
FHLB	12,180,393	0.95
FHLMC	14,642,936	0.51
FNMA	17,142,481	0.83
Local Agency Investment Fund (LAIF)	34,512,454	-
San Bernardino County Pool	75,979,602	-
Money Market Mutual Funds	13,708,342	-
Total	<u>\$ 202,298,215</u>	

Notes to Financial Statements

Note 2. Cash and Investments, Continued

Investment with fair values highly sensitive to interest rate fluctuations: SANBAG's portfolio has no investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures related to credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table are the Standard and Poor's credit rating for SANBAG's investments:

Investment	Total as of June 30, 2005	Exempt from Disclosure	AAA	Not Rated
U.S. Treasury obligations	\$ 34,132,007	\$ 34,132,007	\$ -	\$ -
U.S Government-sponsored Enterprise Securities:				
FHLB	12,180,393	-	12,180,393	-
FHLMC	14,642,936	-	14,642,936	-
FNMA	17,142,481	-	17,142,481	-
LAIF	34,512,454	-	-	34,512,454
San Bernardino County Pool	75,979,602	-	75,979,602	-
Money Market Mutual Funds	13,708,342	-	13,708,342	-
	<u>\$ 202,298,215</u>	<u>\$ 34,132,007</u>	<u>\$ 133,653,754</u>	<u>\$ 34,512,454</u>

Concentration of credit risk: SANBAG is in compliance with restrictions imposed by its investment policy, which limits certain types of investments. As of June 30, 2005, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 40, if SANBAG has invested more than 5% of its total investments in any one issuer, then they are exposed to credit risk. The following investments are considered to be exposed to credit risk:

Investment Type	Amount Reported	Percentage
FHLB	\$ 12,180,393	6%
FHLMC	14,642,936	7%
FNMA	17,142,481	8%

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and SANBAG's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

Note 2. Cash and Investments, Continued

The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2005 SANBAG has deposits with a balance of \$13,264,984 of which \$100,000 is federally insured and the balance is collateralized in accordance with the Code.

California Local Agency Investment Fund: SANBAG is a voluntary participant in the California LAIF that is regulated by California Government Code Section 16429 under the management of the Treasurer of the State of California with oversight provided by the Local Agency Investment Board. The fair value of SANBAG's investments in this pool is reported in the accompanying financial statements at amounts based upon SANBAG's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawals is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

San Bernardino County Treasury Pool: SANBAG is a voluntary participant in the San Bernardino County Treasury Pool. An Investment Oversight Committee has been established by the County, which acts as regulator of the pool. The funds in the County Treasury are pooled with those of other entities in the County and invested. These pooled funds are carried at fair market value. Fair market value as provided by the county, is based on quoted market prices and/or direct bids, when needed, from government dealer and some variable or floating rate items.

Note 3. Interfund Transactions

The composition of interfund balances consists of due to/from other funds and operating transfers. The due to/from other funds represents temporary cash borrowings. Advances are long-term borrowings of cash between funds. Transfers are used to subsidize the activities of other funds and move revenues from the fund that is required to collect them to the fund that expends them. The following is a list of interfund transactions:

	Interfund	
	Receivables	Payables
Due to/from Special Revenue Fund:		
Measure I	\$ 19,666,919	\$ -
Other Special Revenue Fund	-	19,356,410
Other Nonmajor Governmental Funds	-	310,509
	<u>\$ 19,666,919</u>	<u>\$ 19,666,919</u>

San Bernardino Associated Governments

Notes to Financial Statements

Note 3. Interfund Transactions, Continued

	Transfers	
	In	Out
Operating transfers:		
General Fund	\$ 2,933,778	\$ -
Special Revenue Fund:		
Measure I	-	1,857,404
Other Special Revenue Fund	-	851,663
Nonmajor Governmental Fund	-	224,711
General Fund	2,012,700	-
Special Revenue Fund:		
Local Transportation Fund	-	9,740,109
Other Special Revenue Fund	7,727,409	-
Debt Service Fund	39,065,211	-
Special Revenue Fund, Measure I	-	39,065,211
Special Revenue Fund, Measure I	9,031,216	-
Debt Service Fund	-	9,031,216
	<u>\$ 60,770,314</u>	<u>\$ 60,770,314</u>

Note 4. Capital Assets

	Beginning Balance	Additions	Retirements	Ending Balance
Government activities:				
Capital assets not being depreciated, land	\$ 63,036,550	\$ -	\$ (3,140,248)	\$ 59,896,302
Capital assets being depreciated:				
Buildings	928,917	4,366,955	(685,255)	4,610,617
Equipment, furniture and vehicles	6,001,930	74,598	(93,681)	5,982,847
Total capital assets being depreciated	<u>6,930,847</u>	<u>4,441,553</u>	<u>(778,936)</u>	<u>10,593,464</u>
Less accumulated depreciation for:				
Buildings	(231,366)	(169,622)	247,577	(153,411)
Equipment, furniture and vehicles	(5,773,295)	(92,761)	85,845	(5,780,211)
Total accumulated depreciation	<u>(6,004,661)</u>	<u>(262,383)</u>	<u>333,422</u>	<u>(5,933,622)</u>
Total capital assets being depreciated, net	<u>926,186</u>	<u>4,179,170</u>	<u>(445,514)</u>	<u>4,659,842</u>
Government activities capital assets, net	<u>\$ 63,962,736</u>	<u>\$ 4,179,170</u>	<u>\$ (3,585,762)</u>	<u>\$ 64,556,144</u>

Notes to Financial Statements

Note 4. Capital Assets, Continued

Depreciation expense was charged to functions/programs of the government as follows:

Government activities:

General government	\$	92,761
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		169,622
Total depreciation expense, governmental activities	\$	262,383

Note 5. Long-term Liabilities

The following is a summary of the changes in the long-term obligations for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Due within One year
Revenue bonds payable	\$ 199,460,000	\$ -	\$ 29,555,000	\$ 169,905,000	\$ 30,900,000
Bond discount/premium, net	3,084,884	-	794,579	2,290,305	-
Compensated absences	358,266	40,852	94,569	304,549	56,711
Total long-term obligation	\$ 202,903,150	\$ 40,852	\$ 30,444,148	\$ 172,499,854	\$ 30,956,711

Revenue bonds: Revenue bonds payable as of June 30, 2005 consist of the following:

1996 Series A Sales Tax Revenue Bonds-Original Issue \$65,035,000: The remaining issue consists of \$27,500,000 in serial bonds which have scheduled maturities through March 1, 2010 and interest rates varying from 4.00% to 6.25%. The 1996 Series A Bonds are not subject to redemption prior to stated maturities.

1997 Series A Sales Tax Revenue Bonds-Original Issue \$65,000,000: The issue consists of \$45,565,000 in serial bonds outstanding at June 30, 2005 which have scheduled maturities through March 1, 2010 and interest rates varying from 3.90% to 5.25%. Those bonds maturing after March 1, 2008 are subject to redemption beginning March 1, 2008.

2001 Series A Sales Tax Revenue Bonds-Original Issue \$85,000,000: The issue consists of \$51,085,000 in serial bonds outstanding at June 30, 2005 which have scheduled maturities through March 1, 2010 and interest rates varying from 3.50% to 5.00%. The Series A Bonds are not subject to redemption prior to stated maturities.

2001 Series B Sales Tax Revenue Funding (Limited Tax) Bonds-Original Issue \$47,020,000: The issue consists of \$45,755,000 in serial bonds outstanding at June 30, 2005 which have scheduled maturities through March 1, 2010 and interest rates varying from 3.50% to 5.00%. The Series B Bonds are not subject to redemption prior to stated maturities.

Certain member agencies of SANBAG have participated with SANBAG in its revenue bond offerings. The Measure I sales tax distributions, otherwise due to these agencies from SANBAG, will be used for their debt service. The amount due to SANBAG from these agencies approximates \$4,424,002 at June 30, 2005.

Notes to Financial Statements

Note 5. Long-term Liabilities, Continued

The bonds are secured by a pledge of all receipts of sales tax, less an administrative fee of 1.58% of sales tax receipts paid to the State Board of Equalization for administration, and less sales tax receipts allocable to the Mountain-Desert region, except for certain jurisdictions covered by the pledge.

Interest on bonds is payable semiannually on March 1 and September 1 of each year. The annual debt service requirements are as follows:

<u>Years Ending June 30,</u>	Principal	Interest	Total
2006	\$ 30,900,000	\$ 8,118,155	\$ 39,018,155
2007	32,250,000	6,832,308	39,082,308
2008	33,875,000	5,146,595	39,021,595
2009	35,500,000	3,453,007	38,953,007
2010	37,380,000	1,833,156	39,213,156
	<u>\$ 169,905,000</u>	<u>\$ 25,383,221</u>	<u>\$ 195,288,221</u>

Note 6. Lease Commitments and Total Rental Expense

SANBAG leases various office spaces under leases expiring in November 2005. In addition, SANBAG leases a copier under a five-year lease agreement expiring in January 2009. The leases provide that the lessee shall pay all insurance and maintenance. The total rental expenditures included in the financial statements for the year ended June 30, 2005 were \$152,740.

The total minimum rental commitment at June 30, 2005 is due as follows:

<u>Years Ending June 30,</u>	Amount
2006	\$ 82,268
2007	37,228
2008	37,228
2009	15,513
	<u>\$ 172,237</u>

Note 7. Pension Plan

San Bernardino County Employees' Retirement Association: SANBAG contributes to the San Bernardino County Employees' Retirement Association (SBCERA), a cost-sharing, multiple-employer, defined benefit pension plan. SBCERA provides members with retirement, death, disability and cost-of-living benefits. SBCERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to San Bernardino County Employees' Retirement Association, 195 North Arrowhead Avenue, San Bernardino, California, 92425-0014.

Note 7. Pension Plan, Continued

Funding policy: General members are required to contribute 8.36% to 12.28% of their annual compensation to SBCERA. SANBAG is required to make periodic contributions to SBCERA in amounts that are estimated to remain a constant percentage of covered employee compensation such that, when combined with covered employees' contributions, will fully provide for all covered employees' benefits by the time they retire. The current employer rate is 15.91%. SANBAG has elected to pay the employees' portion of contributions. SANBAG's contributions to SBCERA for the years ended June 30, 2005 and 2004 were \$547,264 and \$495,725, respectively, which equal the required contributions for those years.

Note 8. Commitments

Outstanding contracts: As of June 30, 2005, SANBAG had contracted, subject to future Board appropriation, for professional and special services for various transportation projects, including transit studies, right-of-way purchases and construction, which have not yet been rendered. The aggregate amount committed under these contracts is \$201,669,021 at June 30, 2005. Of this total, \$137,540,517 is expected to be expended in the year ending June 30, 2006.

Note 9. Joint Venture

SANBAG is one of five members of the Southern California Regional Rail Authority (SCRRA), a joint powers authority created in June 1992. The SCRRA's Board consists of one member from the Ventura County Transportation Commission; two each from the Orange County Transit Authority, SANBAG and the Riverside County Transportation Commission; and four members from Los Angeles County Metropolitan Transportation Authority. The SCRRA is responsible for implementing and operating a regional commuter rail system (Metrolink) in five Southern California counties. As a member of the SCRRA, SANBAG makes capital and operating contributions for its pro rata share of rail lines servicing the County. SANBAG expended \$6,479,179 during 2005 for its share of Metrolink capital and operating costs. Other funds for rail service are contributed to the SCRRA by the State of California from state rail bonds on behalf of SANBAG. Separate financial statements are prepared by and available from the SCRRA. As of June 30, 2005, SCRRA reported total equity of \$688,781,000.

As disclosed on SCRRA's financial statements, SCRRA was involved in what is referred to as the Glendale incident that occurred on January 26, 2005. This was the result of a collision that occurred in the city of Glendale between a passenger vehicle purposely wedged onto SCRRA track and the southbound Metrolink train. Upon collision, the Metrolink train derailed and struck a parked freight railcar causing this southbound train to jack knife into a northbound Metrolink train. The ensuing derailment resulted in 11 fatalities and multiple passenger injuries, the loss of several Metrolink rail cars and damage to the track and right of way property. In this incident, SCRRA is self-insured for the first \$4,000,000 of potential claims, after which a group of insurance companies will assume the responsibility of defending claims. The insurance companies provide coverage for claims up to \$146,000,000. It is uncertain how many lawsuits will eventually be filed or when any court proceedings may begin. The probable outcome, such as the amount of claims paid, cannot be estimated at the present time. The ultimate effect, if any, of these matters is not presently determinable.

Note 10. Contingency

In the ordinary course of business, SANBAG is exposed to claims, asserted or unasserted, that may arise from its performance under contractual agreements and other matters. In the opinion of management, settlement of such claims, if any, will not have a material adverse effect on SANBAG's financial position, results of operations or liquidity.

Note 11. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2005 that have effective dates that may impact future presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of SANBAG.

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section (an Amendment of NCGA Statement 1)*.
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other than Pensions*.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*.
- GASB Statement No. 47, *Accounting for Termination of Benefits*.

Supplementary Information

Nonmajor Governmental Funds Description

Special Revenue Funds

State Transit Assistance Fund: This fund is used to account for revenues restricted for transit projects.

Service Authority for Freeway Emergencies: This fund is used to record the revenues received from Department of Motor Vehicle fees for the purpose of implementing an emergency call box system for motorists.

San Bernardino Associated Governments

Combining Balance Sheet—Nonmajor Governmental Funds
June 30, 2005

	Special Revenue		
	State Transit Assistance Fund	Service Authority for Freeway Emergencies	Total
Assets			
Assets			
Cash and investments	\$ 17,006,364	\$ 1,232,087	\$ 18,238,451
Interest receivable	180,935	-	180,935
Due from other governments	962,478	310,509	1,272,987
Total assets	\$ 18,149,777	\$ 1,542,596	\$ 19,692,373
Liabilities and Fund Balances			
Liabilities			
Accounts payable and other accrued expenses	\$ -	\$ 267,155	\$ 267,155
Due to other funds	-	310,509	310,509
Due to other governments	-	11,044	11,044
Deferred revenue	-	1,547	1,547
Total liabilities	-	590,255	590,255
Fund Balances			
Reserved for:			
Unpaid allocations	10,907,630	-	10,907,630
Amounts encumbered for subsequent years' expenditures	715,268	-	715,268
Undesignated	6,526,879	952,341	7,479,220
Total fund balances	18,149,777	952,341	19,102,118
Total liabilities and fund balances	\$ 18,149,777	\$ 1,542,596	\$ 19,692,373

San Bernardino Associated Governments

Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor
Governmental Funds
Year Ended June 30, 2005

	Special Revenue		
	State Transit Assistance Fund	Service Authority for Freeway Emergencies	Total
Revenue:			
State Transit Assistance Fund	\$ 3,775,237	\$ -	\$ 3,775,237
Registration fees	-	1,575,365	1,575,365
Investment income	470,702	2,431	473,133
Refunds	140,415	165,650	306,065
	<u>4,386,354</u>	<u>1,743,446</u>	<u>6,129,800</u>
Expenditures:			
Current:			
Disbursements to cities, subareas, transit operators and claimants	3,861,391	-	3,861,391
Salaries, Wages and related items	-	72,909	72,909
Professional services	-	60,627	60,627
Transportation and travel	-	2,952	2,952
Communications	-	151,805	151,805
Office expense	-	1,975,315	1,975,315
Management and technical services	-	200,124	200,124
	<u>3,861,391</u>	<u>2,463,732</u>	<u>6,325,123</u>
Revenue over (under) expenditures	524,963	(720,286)	(195,323)
Other financing sources (uses), transfers out	-	(224,711)	(224,711)
Net change in fund balances	524,963	(944,997)	(420,034)
Fund balance, beginning	17,624,814	1,897,338	19,522,152
Fund balance, ending	<u>\$ 18,149,777</u>	<u>\$ 952,341</u>	<u>\$ 19,102,118</u>

Section III

Statistical Section

San Bernardino Associated Governments

General Governmental Revenue by Source
Last Ten Fiscal Years

Fiscal Year	Sales Tax	Local Transportation Fund	State Transit Assistance Fund	Vehicle Registration Fees	Other Local
1995-96	\$ 62,037,345	\$ 32,368,275	\$ 1,964,806	\$ 1,321,570	\$ 3,138,187
1996-97	64,846,755	33,557,163	2,041,293	1,168,315	991,374
1997-98	69,644,443	36,286,440	2,278,110	1,192,431	666,766
1998-99	73,244,075	38,847,113	2,715,153	1,242,704	1,319,750
1999-00	84,413,385	43,994,109	2,728,606	1,285,478	5,403,710
2000-01	90,618,695	48,566,103	2,838,017	1,331,954	2,363,292
2001-02	94,524,807	49,713,962	5,694,689	1,361,485	5,265,682
2002-03	104,063,009	54,693,963	2,956,387	1,405,996	2,033,947
2003-04	111,575,283	59,335,936	3,242,050	1,487,896	4,336,062
2004-05	131,902,744	69,042,522	3,775,237	1,575,365	3,353,696

Investment							
Income		Federal		State		Refunds	Total
\$	8,478,608	\$	208,283	\$	10,275,216	\$	119,792,290
	6,540,335		1,104,080		1,167,866		120,358,254
	8,560,970		1,382,521		979,390		126,569,919
	7,694,034		1,714,206		4,192,958		136,754,417
	9,745,522		3,052,411		3,893,749		156,076,882
	9,125,119		20,597,662		5,500,695		181,147,332
	9,154,912		69,100,788		7,403,669		242,457,703
	5,562,045		31,060,639		4,045,087		206,026,364
	1,284,521		3,003,402		25,329,378		209,804,125
	4,924,308		11,677,403		25,016,959		252,208,438